

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF LESLIE COUNTY)
TELEPHONE COMPANY, INC., FOR)
ORDER AUTHORIZING ADJUSTMENT OF) CASE NO. 9002
RATES AND CHARGES)

ORDER GRANTING REHEARING

On January 23, 1985, the Commission entered an Order in the above styled matter denying a proposed increase in the rates and charges of Leslie County Telephone Company, Inc. ("Leslie County"). On February 11, 1985, Leslie County filed its request for rehearing. In support of the request for rehearing, Leslie County disputed the Commission's treatment of interest during construction, right-of-way clearing expenses, and employee concession revenues, and also contended that the Commission's decision in this case was influenced by a show cause hearing related to service matters which was held on the same date as the hearing regarding Leslie County's application for a rate increase. On February 22, 1985, the Consumer Protection Division of the Attorney General's Office ("AG") filed a response to Leslie County's petition asking the Commission to deny Leslie County's request for rehearing.

DISCUSSION

Leslie County in its request for rehearing stated that the Commission should not have treated interest during construction

("IDC") in the amount of \$120,756 as operating income for purposes of determining Leslie County's Times Interest Earned Ratio ("TIER"). The Commission in its January 23, 1985, Order found that Leslie County was not in need of additional revenues because its adjusted net operating income of \$550,427 including the effects of the IDC adjustment resulted in a TIER coverage of 1.79, which was above the 1.5 TIER coverage requested by Leslie County. Leslie County stated that the Commission should not consider IDC as operating income because the Federal Communications Commission and Rural Electrification Administration instruct telephone companies to account for IDC as non-operating revenue.

The Commission notes from its January 23, 1985, Order that Leslie County's net investment rate base at the end of 1983 included Construction Work in Progress ("CWIP") in the amount of \$3,159,612. Leslie County's policy of capitalizing IDC effectively increases the level of CWIP above the amount which would be present absent the capitalization of IDC. Because the Commission includes CWIP in the rate base and allows a return on this CWIP even though it is not "used and useful" until such time as it is classified as telephone plant in service, the Commission must offset the inclusion of this CWIP through adjusted IDC in order to maintain a proper matching of rate base and earnings. If this Commission did not increase income by the amount of adjusted IDC, Leslie County would be earning doubly on this IDC, by currently earning a cash return on the CWIP in the net investment rate base and, after the CWIP becomes part of plant in service, by higher depreciation expense resulting from the capitalization of IDC.

The Commission's adjustment to increase operating income by the IDC adjustment is standard regulatory practice and is applied to all telephone utilities under its jurisdiction; however, the Commission notes that Leslie County may have been unaware of this practice because of its absence of rate case requests for several years. Therefore, the Commission, in the interests of providing due process, will grant Leslie County's request for rehearing on this issue to allow Leslie County the opportunity to comment on the practice of recognizing IDC in operating income.

Leslie County further requested that the Commission grant rehearing on the issue of right-of-way clearing expenses. Leslie County stated that its right-of-way clearing expense for the test period was a known expense which was not allowed for by the Commission. The Commission agrees that the right-of-way clearing expense was known; however the overriding concern which led to the Commission's adjustment in this case was that rates should not be based on an abnormal level of expense. Furthermore, Leslie County's contention that no accrual is allowed for right-of-way clearing expense is incorrect on its face since the Commission for rate-making purposes allowed a normalized level of expense for right-of-way clearing in its Order of January 23, 1985. Therefore, the Commission will not allow rehearing on the issue of right-of-way clearing expense.

Leslie County also requested a rehearing on the Commission's adjustment of \$2,175 to include the revenues foregone by Leslie County because of employee concession telephone service. The Commission first points out that the effect of this adjustment

is de minimus as its allowance would not significantly affect Leslie County's adjusted net operating income. The Commission further points out that Leslie County's witness Mr. Donald Roark was given an opportunity at the hearing to comment on the Commission's practice of including such allowances as revenue adjustments, but offered no rebuttal of this practice.¹ Therefore, the Commission will not allow rehearing on this issue.

As a final argument for granting rehearing generally, Leslie County claims it was prejudiced by the hearings regarding its rate proceeding and a show cause proceeding having been held on the same day. Thus, Leslie County suggests that issues regarding rates and service were impermissibly intertwined.

The Commission scheduled both hearings for the same date as a convenience to Leslie County and the parties. Furthermore, Leslie County did not raise an objection to the hearing schedules prior to the hearings. In light of this, it appears that Leslie County has waived any objection in that regard. Thus, the Commission will not grant a rehearing generally.

IT IS THEREFORE ORDERED that Leslie County's request for rehearing on the issue of interest during construction as a revenue adjustment be and it hereby is granted.

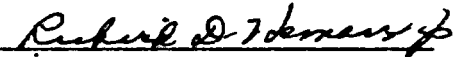
IT IS FURTHER ORDERED that Leslie County's request for rehearing on the issue of right-of-way clearing expenses be and it hereby is denied.

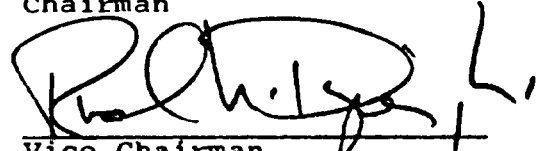
¹ Transcript of Evidence, September 19, 1984, page 10.


IT IS FURTHER ORDERED that Leslie County's request for rehearing on the issue of employee concession telephone service revenues be and it hereby is denied.

Done at Frankfort, Kentucky, this 4th day of March, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary